

**CONFIDENTIAL**

65-50941

3 SEP 1965

MEMORANDUM FOR: Director of Central Intelligence

SUBJECT: Proposed Amendment to the Central Intelligence  
Agency Retirement Act

1. This memorandum contains a recommendation for the approval of the Director of Central Intelligence. Such recommendation is set forth in Paragraph 7.

2. The purpose of the amendment is to shorten the time lag between the commencement date of an annuity and the date the annuitant can realize a cost-of-living adjustment.

3. The cost-of-living adjustment provision of the Central Intelligence Agency Retirement Act of 1964 was patterned after provisions of law enacted in 1962 and 1963 for civil service and military retirees. It requires a minimum period of 15 months to elapse before an annuitant is eligible to receive his first cost-of-living adjustment. Further, the minimum 3 per cent rise in price index needed to kick off an adjustment must be computed and sustained on an average calendar year basis with the increase being delayed until 1 April of the succeeding year. A recent change in Administration policy has prompted Congressional action to liberalize these features.

4. This month the Senate Committee reported out the Armed Forces pay bill with an amendment tying cost-of-living annuity adjustments to monthly price indexes, accelerating to a more current date the adjustment due 1 April 1966, and providing for more current payment of subsequent adjustments. This amendment has become law. Similar amendments to the Civil Service Retirement Act and the Foreign Service Retirement system are under active consideration by Congress, and while enactment of legislation of this type is never certain, the outlook for early passage of the civil service amendment is favorable.

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5. A similar amendment for the Central Intelligence Agency Retirement system would be consistent with current Administration policy supporting a change in the cost-of-living formula for the civil service and military systems. It would also be in line with the objective of maintaining uniform cost-of-living adjustment provisions for the major retirement systems.

6. If the civil service amendment is approved, civil service retirees will receive an annuity increase of 6.1 per cent on 1 December 1965. Four and six-tenths per cent of this increase represents the per centum change in cost of living since 1962. The remaining 1.5 per cent is a special adjustment. This increase will apply to all who retire by 1 December 1965. Since this relatively large increase is being made available on a prospective basis, the Civil Service Commission expects a heavy increase in voluntary retirement by 1 December 1965.

7. It is recommended that the Director sign the attached letters to the Speaker of the House and the President of the Senate, proposing an amendment to Section 291 of the Central Intelligence Agency Retirement Act of 1964 which is parallel to the amendment now pending before Congress for civil service retirees. This recommendation has the concurrence of appropriate Agency officials, through the mechanism of the Central Intelligence Agency Retirement Board, and the Director of Personnel.

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 JOHN S. WARNER  
Legislative Counsel

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#### Attachments

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22 OCT 1965

Honorable Hubert H. Humphrey  
President of the Senate  
Washington, D. C. 20510

Dear Mr. Humphrey:

This letter transmits for the consideration of the Congress a proposed amendment to the Central Intelligence Agency Retirement Act of 1964 for Certain Employees. The proposed amendment authorizes monthly periods to be used in computing the rise in Consumer Price Indexes and provides for cost-of-living adjustments of annuities on a more current basis.

The cost-of-living adjustment provision for the Central Intelligence Agency Retirement system was adopted from provisions of law then applicable to civil service and military retirees. The provision affecting military retirees was recently amended by Public Law 89-132. This amendment gears adjustments to monthly rather than average calendar year Consumer Price Indexes, accelerates the annuity increase due on 1 April 1966 to a more current date, and provides for the more current payment of subsequent increases. Similar legislation for civil service retirees was approved on 27 September 1965 (P. L. 89-205).

The reasons for changing the mechanics of cost-of-living adjustments for military, foreign service, and civil service retirees apply with equal force to retirees under the Central Intelligence Agency Retirement system. Enactment of the proposed amendment will assure that the Central Intelligence Agency Retirement system remains in line with these other retirement systems and Administration policy.

We would appreciate early and favorable consideration of the proposed amendment. The Bureau of the Budget has advised that there is no objection to presenting the proposed amendment to the Congress from the standpoint of the Administration's program.

Sincerely,

W. F. Reborn  
Director

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22 OCT 1965

Honorable John W. McCormack  
Speaker  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Speaker:

This letter transmits for the consideration of the Congress a proposed amendment to the Central Intelligence Agency Retirement Act of 1964 for Certain Employees. The proposed amendment authorizes monthly periods to be used in computing the rise in Consumer Price Indexes and provides for cost-of-living adjustments of annuities on a more current basis.

The cost-of-living adjustment provision for the Central Intelligence Agency Retirement system was adopted from provisions of law then applicable to civil service and military retirees. The provision affecting military retirees was recently amended by Public Law 89-132. This amendment gears adjustments to monthly rather than average calendar year Consumer Price Indexes, accelerates the annuity increases due on 1 April 1966 to a more current date, and provides for the more current payment of subsequent increases. Similar legislation for civil service retirees was approved on 27 September 1965 (P.L. 89-205).

The reasons for changing the mechanics of cost-of-living adjustments for military, foreign service, and civil service retirees apply with equal force to retirees under the Central Intelligence Agency Retirement system. Enactment of the proposed amendment will assure that the Central Intelligence Agency Retirement system remains in line with these other retirement systems and Administration policy.

We would appreciate early and favorable consideration of the proposed amendment. The Bureau of the Budget has advised that there is no objection to presenting the proposed amendment to the Congress from the standpoint of the Administration's program.

Sincerely,

W. F. Raborn  
Director

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9 SEP 1965

Honorable Charles L. Schultze  
Director  
Bureau of the Budget  
Washington, D. C. 20503

Dear Mr. Schultze:

Enclosed are four copies of a draft bill "To provide certain increases in annuities payable from the Central Intelligence Agency Retirement and Disability Fund, and for other purposes." This bill is submitted for clearance by the Bureau of the Budget prior to submission to the Congress. Also enclosed are copies of the justification and explanation together with proposed letters of transmittal to the President of the Senate and the Speaker of the House.

The proposed legislation would provide for the adjustment of annuities on the basis of monthly Consumer Price Index indicators and accelerate the cost-of-living adjustment of annuities under the Act. The cost-of-living adjustment provision of the Central Intelligence Agency Retirement Act was patterned after provisions of law enacted in 1962 and 1963 for civil service and military retirees.

The recently enacted Armed Forces pay increase amended the cost-of-living adjustment provision affecting military retirees by tying adjustments to monthly price indexes, accelerating the adjustment due 1 April 1966 to a more current date, and providing for the more current payment of subsequent increases. Similar amendment to the Civil Service Retirement Act is under active consideration by Congress. It is understood that the cost-of-living formula should be uniform in Federal retirement programs.

Approval of the proposed bill will assure that the cost-of-living adjustment features of this Agency's retirement system are in accord with Administration policy. If there is any additional information needed, you are assured of our cooperation in every possible way.

Sincerely,

**SIGNED**

John S. Warner  
Legislative Counsel

Enclosures 4

89th CONGRESS  
1st SESSION

IN THE HOUSE OF REPRESENTATIVES

A BILL

To provide certain increases in annuities payable from the Central Intelligence Agency Retirement and Disability Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 291 of the Central Intelligence Agency Retirement Act of 1964 for Certain Employees (50 U.S.C. 403 note) is amended to read as follows:

"SEC. 291. (a) On the basis of determinations made by the Civil Service Commission pursuant to Section 18 of the Civil Service Retirement Act, as amended, pertaining to per centum change in the price index, the following adjustments shall be made:

"(1) Effective <sup>with ab</sup> December 1, 1965 each annuity payable from the fund which has a commencing date ~~not later than December 1, 1965,~~ or effective as of the commencement date each annuity payable from the fund (~~other than the annuity of a child entitled under Section 221(c)~~) based on separation for retirement or death of a participant on or <sup>before</sup> ~~after~~ December 1, 1965, but not later than December 30, 1965, shall be increased by (a) the per centum rise in the price index, adjusted to the nearest one-tenth of 1 per centum, determined by the Commission on the basis of the annual average price index for calendar year <sup>1962</sup> 1965 and



the price index for the month of July of calendar year 1963, plus (b) 1 1/2 per centum. The month of July of calendar year 1963 shall be the base month for determining the per centum change in the price index until the next succeeding increase occurs.

"(2) Effective the first day of the third month which begins after the price index shall have equaled a rise of at least 3 per centum for three consecutive months over the price index for the base month, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by the per centum rise in the price index (calculated on the highest level of the price index during the three consecutive months) adjusted to the nearest one-tenth of 1 per centum."

"(b) Eligibility for an annuity increase under this section shall be governed by the commencing date of each annuity payable from the fund as of the effective date of an increase, except as follows:

"(1) Effective from its commencing date, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under Section 221(c)), which annuity commences the day after annuitant's death and after <sup>Jan</sup> ~~December 1, 1966~~,<sup>6</sup>

shall be increased by the total per centum increase the annuitant was receiving under this section at death.

"(2) For purposes of computing an annuity which commences after <sup>January 1</sup> ~~December 1~~, 1965 to a child under Section 221(c), the items \$600, \$720, \$1,800, and \$2,160 appearing in Section 221(c) shall be increased by the total per centum increase allowed and in force under this section and, in case of a deceased annuitant, the items 40 per centum and 50 per centum appearing in Section 221(c) shall be increased by the total per centum increase allowed and in force under this section to the annuitant at death.

"(c) The term 'price index' shall mean the Consumer Price Index (all items--United States city average) published monthly by the Bureau of Labor Statistics. The term 'base month' shall mean the month for which the price index showed a per centum rise forming the basis for a cost-of-living annuity increase.

"(d) No increase in annuity provided by this section shall be computed on any additional annuity purchased at retirement by voluntary contributions.

"(e) The monthly installment of annuity after adjustment under this section shall be fixed at the nearest dollar, except that such installment shall after adjustment reflect an increase of at least \$1."

## JUSTIFICATION AND EXPLANATION

1. Purpose. The purpose of the proposed legislation is to provide for the adjustment of annuities on the basis of monthly Consumer Price Index indicators and to accelerate the cost-of-living adjustment of annuities under the Central Intelligence Agency Retirement Act of 1964 for Certain Employees.

2. Background Statement. The Central Intelligence Agency Retirement Act of 1964 authorizes automatic cost-of-living adjustments on the basis of Consumer Price Index rises by an annual average of 3 per centum or more for a calendar year and establishes 1 April 1966 as the earliest effective date for the first such annuity increase. The automatic adjustment principle was incorporated into the Civil Service Retirement Act in 1962. The Civil Service Retirement Act automatic adjustment provision was incorporated into the Central Intelligence Agency Retirement Act when it was passed in 1964. The Senate Report supporting the bill to provide for the Central Intelligence Agency Retirement System states that the Senate Committee "...adopted new language authorizing increases in the retired pay of annuitants based upon the identical system now in effect for retired Civil Service employees providing for periodic increases in retired pay based on minimum 3 per centum advances in the Consumer Price Index." (88th Congress, Second Session,

Senate Report 1589.) Similar reference to this cost-of-living feature was made during Senate consideration of the amended bill which became law. At the time a similar basis for adjustment existed for the benefit of military members of the Armed Forces.

3. Recent Congressional Consideration. The 89th Congress, at the request of the Secretary of Defense, amended the cost-of-living provision affecting military retirees. This amendment gears increases to monthly rather than average calendar year Consumer Price Indexes and accelerates the cost-of-living adjustment due on 1 April 1966 to a more current date. This amendment has become law (P.L. 89-132). Similar legislation for the benefit of civil service retirees was approved on 27 September 1965 (P.L. 89-205). The Chairman of the Civil Service Commission has stated his support for this legislation. Similar legislation is also being processed for the benefit of foreign service personnel under the Foreign Service Retirement System.

4. Justification. The proposed amendment will assure that the cost-of-living adjustment provision of the Central Intelligence Agency Retirement System is consistent with Administration policy supporting a revised method of determining cost-of-living increases for civil service and military retirees.

The proposed amendment will also assure that uniform cost-of-living provisions are maintained for the Civil Service, Military, and Central Intelligence Agency Retirement Systems.

5. Cost Estimates: It is estimated that the annuities of 30 retirees and 3 survivors would be affected by the proposed initial annuity increase of 6.1 per cent. Based on an average retiree annuity of \$6,000, the annual increase per annuitant would be \$366, making a total of \$10980 for the entire group of retirees. Based on an average survivor annuity of \$3300, the annual increase per annuitant would be \$201, making a total of \$603 for the entire group. Thus the total additional cost of the proposed initial increase of 6.1 per cent would be \$11,583 per year.

However, the first-year cost would be somewhat less since the increase would apply only to the seven-month period from December 1965 through June 1966. On this basis, the first-year cost would be 7/12 of the annual cost, or \$6,755.

In the absence of actuarial experience under the CIA retirement system on which to base a long range estimate, the current estimate of annual cost has been projected on a full year basis over fiscal years 1967 through 1970 for a total of \$46,332. This figure added to the FY 1965 estimate of \$6,755 produces an estimated additional cost of \$53,087 for

the first five fiscal years during which the proposed initial increase would apply.

There appears to be no feasible basis for estimating the additional costs which might result from further annuity adjustments based on the revised formula for granting future cost-of-living increases.

*Serv. 2.*

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2	Ex Director-Comptroller		
3	DCI	8 Sept 65	DCI/CE
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Remarks:			
<p>If the Director approves the signed letters should not be dated and should be returned to us so that we may accomplish on a hand carry basis Bureau of the Budget approval.</p> <p style="text-align: right;">SIGNED</p> <p style="text-align: right;">John S. Warner</p>			
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